

Out of the Pits: Traders and Technology from Chicago to London. *By Caitlin Zaloom.* Chicago: University of Chicago Press, 2006. xiii + 224 pp. Index, notes, bibliography, photographs. Cloth, \$29.00. ISBN: 0-226-97813-3.

Reviewed by Paul J. Miranti

In her brilliant qualitative study, Caitlin Zaloom draws on cultural anthropology and economics to evaluate the nature of technological and market change in the trading of futures and options. This inquiry was partially informed by her own experiences, first as a floor trader at the Chicago Board of Trade (CBOT) and later, in London, as a computer trader through various global markets. The historical controversy that serves as a backdrop for her analysis was the transformation of trading from “open-outcry,” or face-to-face, transacting perfected in the nineteenth century to computer-augmented commerce, which emerged during the 1990s. A major problem militating for change at the CBOT was the inability of traditional labor-intensive practices to handle greatly increased transaction volumes as constraints of space and personnel imposed physical limits on the number of orders that could be successfully executed. . There were also limits to the pool of capital that the “locals,” or market makers, could concentrate in providing liquidity to trading.

Dr. Zaloom argues that the explanations put forth by economic rationalists for assessing the co-development of markets and technologies are too narrow. Instead, she persuasively contends that the evolution of financial exchanges is better understood as the product of a complex and subtle synthesis of economic, social, and cultural influences. Zaloom unifies her evaluation by concentrating on the outlooks and actions of three classes of human agents who seek, through a changing array of “experiments” or plans, to skim profits from the market’s underlying transactional flows: designers, who are responsible for structuring the market’s basic layout; managers, who monitor and guide the dealing of their firm’s traders; and the individual traders. As Zaloom convincingly notes, the realization of the fundamental goals of each group could be materially facilitated by manipulating key attributes in the trading environment. Among these

factors are the market's architecture and spatial ordering; the social composition of the trading community; sociotechnical arrangements for conducting trading activities; conceptions of self that affect trader motivation and action; and the ways that the market differentiates itself and its activities from the broader social setting.

The resistance to technological change by many at the CBOT represented the crystallization of both economic and social concerns. While proponents defended the open-outcry auction system because of its effectiveness as a price-discovery mechanism, Zaloom shrewdly perceives other motives embedded in the social composition of the trading community. The CBOT's open-outcry auctions promoted transactional transparency and efficient pricing by drawing together in one place all those interested in trading particular contracts. However, access to the eight-tiered trading pits was strongly conditioned by considerations of gender, family, ethnicity, and race. The trading floor was a male bastion whose members were largely of German, Irish, or Jewish backgrounds. Some families were represented on the floor through several generations. In addition, some of the connected were further advantaged by the financial support and tutelage in successful trading practices that they received from their patrons.

While admission to the exchange may have been strongly influenced by the intermediation of personal networks, Zaloom stresses the highly solitary nature of the floor-trading function and the impact that this has on shaping conceptions of self. Success was thought to derive from strictly following trading disciplines that concentrated the mind on responding appropriately to what was actually happening in the market, rather than anticipating what one thought should happen. Right action involved adherence to optimization rules, such as "cut your losses and let your profits run." In gauging the direction of the market, traders focused on assessing immediately observable factors, such as the changing vocal tone of the trading crowd and the actions of major players. The accuracy of such diagnoses determined whether one was a winner or a loser within the pecking order of the trading pit. Like soldiers at the front, traders who daily confronted the threat of financial demise experienced high levels of tension, which they sought to dissipate through displays of ultra-aggressive masculinity. This behavior included binge eating to build up adrenalin levels, confrontational jostling and shoving to

establish dominance, loud shouting to surmount the trading din, and resorting to vulgar, obscene language as a sort of twisted code of acceptance in the company of men.

Zaloom contrasts these surroundings with the environment established in a new experiment for computerized transacting in global markets launched at her firm in London that sought to enhance profits by broadening the social makeup of the trading cadre. The computer had changed the nature of trading in fundamental ways. Rather than operating within the market as if it were a continuation of the open-outcry environment, the trader was transformed into a distant observer who maintained connectivity through a mouse and a computer screen. While computerization tended to promote the physical isolation of traders, it also facilitated their ability to participate in the action in distant continental and U.S. markets. How these new arrangements would affect trading initially remained unclear. In the experiment, the firm managers explored the possibility of realizing greater profitability through an amalgamation of traders from traditional and nontraditional backgrounds. The traditionalists were relatively poorly educated “barrow boys,” or “Essex men” (i.e., London East Enders displaced by real-estate development), who had perfected their skills in open-outcry trading at the defunct London International Financial Futures Exchange (LIFFE). They were allied with a more tutored group of men and women and culturally diverse novices. By promoting the intellectual cross-fertilization of the street smart and the book smart, the firm’s managers sought to hybridize approaches for employing information technology more effectively in order to achieve superior market performance. Further enriching the initiative was the knowledge of Chicago trading practices and techniques that the managers brought to the mix from their training and supervisory activities. Zaloom’s narrative provides much useful insight into the behavioral modifications and compromises that stemmed from the interaction among the heterogeneous elements of the experimental group. Her discussion of the degree to which the experiment succeeded in realizing profit-maximizing goals is less developed, doubtless because of the proprietary nature of the sponsoring firm’s financial information.

In these and other ways, Zaloom makes a strong case for the relevance of cultural analysis in extending our understanding of the functionality and evolution of organized markets and exchanges. Her excellent achievement demonstrates the power of

## **BUSINESS HISTORY REVIEW**

Winter 2007

BOOK REVIEW

interdisciplinary approaches in extending the scope and richness of scholarship in business and economic history.

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